

**OFFICIAL FILE**

STATE OF ILLINOIS I.C.C. DOCKET NO. 00-0443  
North Shore  
ILLINOIS COMMERCE COMMISSION Exhibit No. A

Witness Matuszak  
Date 6/13/01 Reporter KB

Illinois Commerce Commission, )  
On Its Own Motion )  
)  
Reconciliation of revenues collected )  
under North Shore Gas Company's )  
Rider 11 with prudent costs associated )  
with coal tar cleanup expenditures. )

00-0443

**REVISED DIRECT TESTIMONY OF  
STEVEN J. MATUSZAK**

Q. Please state your name.

A. My name is Steven J. Matuszak.

Q. Please describe your educational background and employment history.

A. I received a Bachelor of Science degree in Mechanical Engineering from the Illinois Institute of Technology in 1977. I began my employment with The Peoples Gas Light and Coke Company ("Peoples") in June 1977. I began my career in the Engineering Department and held several different positions in the Engineering, Service, Gas Supply, and Distribution Departments. I became Director of the Environmental Affairs Department in September 1996. I serve in a similar capacity for Respondent, North Shore Gas Company ("Respondent", "North Shore" or "Company").

Q. What are your responsibilities as the Director of the Environmental Affairs Department?

A. As Director, I have responsibility for the management of environmental activities conducted for Respondent by the Environmental Affairs Department. I had these responsibilities during fiscal year 1999, the reconciliation year for purposes of

35 this proceeding.

36 Q. Please describe the environmental activities and responsibilities of the  
37 Environmental Affairs Department as they relate to the Company's former  
38 manufactured gas operations.

39 A. The Environmental Affairs Department is responsible for the oversight of the  
40 environmental operations of the Company. Personnel from the Environmental  
41 Affairs Department review and comment upon documents and technical materials  
42 that are prepared by the Company's environmental consultants and also review the  
43 invoices that those consultants submit to the Company for the work that they  
44 perform. In addition, personnel from the Environmental Affairs Department oversee  
45 and assist the Company's environmental consultants in conducting field  
46 investigations.

47 Q. What is the purpose of your testimony?

48 A. My testimony is given for the purpose of describing the environmental  
49 activities that have given rise to the incremental costs that were recorded by North  
50 Shore under its Rider 11, "Adjustment for Incremental Costs of Environmental  
51 Activities," during fiscal year 1999.

52 Q. What is the nature of the incremental costs that Respondent records under  
53 Rider 11?

54 A. The incremental costs that North Shore records under its Rider 11 are the  
55 costs that it incurs as a result of the environmental activities that are required in  
56 order to comply with environmental laws and regulations. These incremental costs  
57 relate to manufactured gas operations that were formerly conducted by North  
58 Shore's corporate predecessors and affiliates.

59 Q. What is Respondent's policy on complying with environmental laws and

60 regulations?

61 A. It is North Shore's policy to comply fully with environmental laws and  
62 regulations.

63 Q. What is North Shore's policy regarding the costs that are incurred as a result  
64 of its policy to fully comply with environmental laws and regulations?

65 A. It is the policy of North Shore to control environmental compliance costs to  
66 the fullest possible extent. Because of this policy to control costs, North Shore will  
67 make expenditures only when it is determined to be prudent to do so.

68 Q. What standard does Respondent use in determining the prudence of the  
69 expenditures that it makes in complying with environmental laws and regulations?

70 A. In determining whether or not to make expenditures in complying with  
71 environmental laws and regulations, the Company uses the following standards:  
72 1) reasonable and appropriate business standards; 2) the requirements of other  
73 relevant state and/or federal authorities; 3) the minimization of costs to ratepayers in  
74 a manner that is consistent with safety, reliability and quality assurance; and 4) the  
75 facts that are known to the Company at the time that the expenditures are made.

76 Q. How does North Shore control the cost of complying with environmental laws  
77 and regulations?

78 A. The most effective way for North Shore to control those costs is to be actively  
79 involved in the determinations that are made regarding the timing, choice and scope  
80 of environmental activities. This participation is necessary because of North Shore's  
81 desire to keep the cost of its service competitive.

82 Q. When did North Shore's corporate predecessors and affiliates conduct  
83 manufactured gas operations?

84 A. In North Shore's territory, gas was first manufactured in the 1880's. The

85 changeover to natural gas began in 1947, when natural gas was made available  
86 through the interstate pipeline system.

87 Q. Does North Shore currently conduct any manufactured gas operations?

88 A. No. The gas supply that North Shore currently distributes to its customers is  
89 the natural gas that is obtained through the intrastate and interstate pipeline systems  
90 which extend from the gas producing regions of the United States into North Shore's  
91 service territory.

92 Q. Please describe the process by which North Shore's corporate predecessors  
93 and affiliates previously manufactured and stored gas.

94 A. Coal, coke (an energy rich material converted from coal) and oil were the  
95 primary raw materials in the manufacturing processes. Depending upon the type of  
96 manufacturing process, coal or coke was loaded into ovens and heated, thereby  
97 producing a low-Btu gas. Oil was then added to enrich the heating value of the gas  
98 to the required level, which was approximately half the heating value of the natural  
99 gas that is distributed today. At this point in the manufacturing process, the gas  
100 stream passed through a variety of purifying processes in order to make the gas  
101 suitable for distribution. The manufactured gas was then stored in vessels, called  
102 holders, until it was distributed.

103 Q. Do the costs that are recovered through Rider 11 arise because of a failure to  
104 comply with laws in effect at the time the manufactured gas operations were  
105 conducted?

106 A. No. The environmental compliance costs that North Shore incurs are the  
107 result of various duties and obligations that are imposed by recently enacted laws  
108 and regulations. The manufactured gas operations of North Shore's corporate  
109 predecessors and affiliates were conducted in accordance with then-existing industry

standards. We have found no indication that those operations violated any laws in existence at that time.

Q. Please describe the types of costs that North Shore has typically incurred during the course of its environmental compliance activities.

A. Costs have been incurred, and continue to be incurred, from a variety of environmental activities that are related to former manufactured gas operations. These activities can generally be divided into four phases.

First, there are those activities which are conducted before the actual study of a site begins. These activities may include negotiations with the United States Environmental Protection Agency ("USEPA") or the Illinois Environmental Protection Agency ("IEPA"), as well as with other potentially responsible parties ("PRPs"). A PRP is a party which an environmental regulatory agency determines, based upon the information that is available to it at the time, is potentially liable for any contamination, or portion of any contamination that might be present at a site. Therefore, a PRP is potentially liable for the cost of any investigative and remedial work at the site that the USEPA or IEPA determines to be necessary. Costs which are associated with the negotiation of a consent decree or of any other formal agreement may also be incurred during the first phase.

Second, an actual study of the site is conducted in order to determine the nature and extent of the contamination that is present and to identify and develop alternative remediation strategies.

Third, a remediation strategy is chosen which may entail public hearings conducted by the USEPA or the IEPA.

Fourth, the remediation strategy is implemented and monitored.

The activities that are conducted during each of these phases require a highly

135 technical and specialized level of experience and expertise that is obtained from  
136 carefully chosen environmental engineers and consultants, laboratory and testing  
137 services, law firms, and contractors who perform field work during the investigative  
138 and remedial phases. Substantial costs are incurred by the Company as a result of  
139 the work that is performed by these vendors.

140 The Company may also incur costs because of the issuance of a judgment,  
141 or of an order entered by a court, or of a state or federal regulatory agency. In  
142 addition, costs may arise from activities related to the identification of PRPs and  
143 insurance carriers and in connection with cost recovery litigation against them.

144  
145 Q. What is Respondent's policy with regard to PRPs and insurance carriers?

146 A. It is the policy of the Company to make all reasonable efforts necessary to  
147 vigorously pursue recovery of the incremental costs incurred as a result of  
148 environmental activity from PRPs and insurance carriers.

149 Q. Does Respondent incur costs in connection with environmental activities that  
150 it does not recover under Rider 11?

151 A. Yes. The in-house environmental counsel and environmental engineers of  
152 Peoples, North Shore's corporate affiliate, are actively involved in the Company's  
153 environmental activities. The Company incurs costs for wages or salaries of these  
154 employees in connection with their environmental activities. These costs, however,  
155 which are costs associated with services that have been rendered by a corporate  
156 affiliate of the Company, are not "incremental costs" under Rider 11, and therefore  
157 are not recoverable by the Company under Rider 11.

158 Q. Please describe Respondent's Exhibit 1.

159 A. Respondent's Exhibit 1 includes North Shore's verified report regarding its

Incremental Costs of Environmental Activities, which was filed with the Commerce Commission on November 15, 1999. It was filed pursuant to the Commission's Order dated November 8, 1991 in Docket 91-0010, and Section D of Rider 11 of the Company's Schedule of Rates. Respondent's Exhibit 1 details the incremental costs of environmental activities that Respondent incurred during the quarter ended September 30, 1999, during fiscal year 1999, and cumulative through September 30, 1999. Also included in Respondent's Exhibit 1 is the related certification by North Shore's independent public accountant, Arthur Andersen LLP, as required by the Company's Rider 11.

Page 5 of Respondent's Exhibit 1 consists of a Statement of Activity in Account 182.3, Other Regulatory Assets, for the quarter ended September 30, 1999, for fiscal year 1999, and cumulative through September 30, 1999. Line 1 of Column C shows that Respondent had a balance at the beginning of fiscal year 1999 in Account 182.3 of \$1,184,381.75, which represents environmental costs incurred prior to fiscal year 1999 and which have yet to be recovered. Line 4 of Column C represents debits (increases) to the account of \$671,363.88, which were incurred during fiscal year 1999. Line 7 of Column C represents credits (decreases) to the account of \$1,023,065.80 that were recovered from ratepayers during fiscal year 1999 through operation of Rider 11. Line 10 of Column C represents credits (decreases) to the account of \$272,108.54 that were recovered through the settlement fund, which I will discuss later in my testimony. Line 12 of Column C represents the fiscal year-end balance in the account of \$560,571.29. This balance will remain in the account until recovered through rates, through the settlement fund, or through reimbursement by other PRPs or insurance carriers.

Page 6 of Respondent's Exhibit 1 consists of a statement of activity in the

185 settlement fund for the quarter ended September 30, 1999, for fiscal year 1999, and  
186 cumulative through September 30, 1999.

187 Page 7 consists of a Summary of Incremental Costs for the quarter ended  
188 September 30, 1999, fiscal year 1999, and cumulative through September 30, 1999.  
189 Column D shows the fiscal 1999 costs of \$671,363.88, broken down by site, or by  
190 other category for those costs that are not attributable to a specific site.

191 Q. Please describe the settlement fund.

192 A. On February 26, 1999, the Commission, in Docket R-18957, granted North  
193 Shore's Request for Special Permission to revise Rider 11 to add provisions relating  
194 to amounts received from insurance carriers or other entities in settlement of the  
195 Company's claims where the payments apply to future costs. The occasion for the  
196 Company's filing was the receipt of a substantial payment by an insurance carrier in  
197 settlement of claims made in a pending lawsuit. The Commission approved North  
198 Shore's proposal to establish a settlement fund to identify and track the amounts  
199 arising from settlements with insurance carriers or other entities that are available to  
200 pay costs otherwise recoverable under Rider 11. Beginning with incremental costs  
201 incurred in December 1998, 50% of such costs are recovered through the settlement  
202 fund and 50% through Rider 11.

203 Q. Did Respondent receive any reimbursements of past incremental costs from  
204 PRPs during fiscal year 1999?

205 A. Yes. Respondent received \$242,291.26 from a PRP relative to  
206 environmental activities that were conducted at the former Waukegan Coke Plant.

207 Q. Respondent's Exhibit 1 at page 7 shows that during fiscal year 1999,  
208 Respondent incurred a total of \$462,416.82 in incremental costs for environmental  
209 activities related to the former Waukegan Coke Plant. Please describe the activities



210 that resulted in North Shore incurring incremental costs related to the former  
211 Waukegan Coke Plant during fiscal year 1999.

212 A. During fiscal year 1999, Respondent incurred incremental costs as a result of  
213 activities conducted by its environmental engineering consultant and its  
214 environmental counsel. Incremental costs were also incurred as a result of the  
215 oversight activities conducted by the IEPA and USEPA.

216 Throughout fiscal year 1999, Respondent's environmental engineering  
217 consultant continued its activities relating to the evaluation of remediation  
218 technologies, project reporting, the Feasibility Study, biotechnology evaluations, and  
219 the evaluation of remedial alternatives.

220 Respondent's environmental counsel also continued to conduct  
221 environmental activities relative to the former Waukegan Coke Plant throughout  
222 fiscal year 1999. Respondent's environmental counsel continued to evaluate the  
223 potential to recover from other PRPs costs that were incurred as a result of  
224 environmental activities at the site. Respondent's environmental counsel and  
225 environmental consultant actively participated during the various meetings that were  
226 conducted throughout fiscal year 1999 with the USEPA and PRPs.

227 In addition, fiscal year 1999 costs include payments of \$80,936.86 to the  
228 USEPA for reimbursement of its costs.

229 Q. Respondent's Exhibit 1 shows that during fiscal year 1999, Respondent  
230 incurred a total of \$8,222.75 in incremental costs for environmental activities related  
231 to the former South Plant. Please describe the activities that resulted in North Shore  
232 incurring incremental costs related to the former South Plant during fiscal year 1999.

233 A. Respondent incurred these incremental costs primarily as a result of project  
234 management services in association with the IEPA site remediation program.

235 Q. Respondent's Exhibit 1 shows that during fiscal year 1999, Respondent  
236 incurred \$12,652.90 in incremental costs under Rider 11 for environmental activities  
237 that are associated with its Community Relations Program. Please describe the  
238 activities that gave rise to these costs.

239 A. North Shore incurred incremental costs throughout fiscal year 1999 for  
240 payments to Monti Communications, Respondent's community relations consultant,  
241 to perform work on behalf of Respondent to keep the community informed of  
242 Respondent's site investigations and remediation activities.

243 In fiscal year 1999, Respondent incurred costs as a result of its active  
244 cooperation with the Citizen's Advisory Group of Waukegan ("CAG"). CAG is a  
245 community organization that has concerned itself with the environmental remediation  
246 activities that are being conducted in the Waukegan area. CAG holds monthly  
247 meetings that are attended by North Shore's community relations consultant.

248 Q. Respondent's Exhibit 1 shows that during fiscal year 1999, Respondent  
249 incurred \$117,101.08 in insurance related costs under Rider 11. Please describe  
250 the activities that gave rise to these costs.

251 A. The insurance related incremental costs under Rider 11 during fiscal year  
252 1999 were incurred as the result of the activities conducted by Respondent's  
253 insurance counsel in connection with a lawsuit filed in the Circuit Court of Cook  
254 County to recover from Respondent's current and previous foreign and domestic  
255 insurance carriers the costs that have been incurred for environmental activities that  
256 are associated with former manufactured gas plants and storage facilities.

257 In its complaint against those carriers, Respondent is seeking: 1) a  
258 declaration that each defendant is jointly and severally obligated under the terms of  
259 its insurance policies to indemnify Respondent for the costs of its environmental

liabilities; 2) to recover its actual damages as a result of the breach by its carriers of the contractual obligation to indemnify the Company as specified in the policies; 3) to recover its attorneys fees; and 4) any other relief that the court deems appropriate to award.

The costs are primarily attributable to document discovery and settlement discussions with the defendants. As mentioned previously, Respondent achieved a major settlement with one of its major carriers during fiscal year 1999.

Q. According to Respondent's Exhibit 1, Respondent incurred \$10,808.11 in General and Unallocated Costs under Rider 11 for environmental activities during fiscal year 1999. Please describe the activities that gave rise to these costs.

A. The majority of these costs were incurred as the result of the activities of two vendors, Respondent's environmental counsel and Respondent's independent accountant. Respondent incurred legal expenses as the result of environmental activity that was not attributable to environmental activity at a specific former manufactured gas plant site, but generally common to all of Respondent's former manufactured gas operations. Respondent also incurred costs in fiscal year 1999 as a result of the activities of Arthur Andersen LLP, Respondent's independent public accountant, who audited Respondent's Report to the Illinois Commerce Commission, "Incremental Costs of Environmental Activities, Statement of Activity in the Deferred Account, Fiscal Year 1999."

Q. According to Respondent's Exhibit 1, Respondent incurred \$60,162.22 in carrying charges. Please explain.

A. Pursuant to Respondent's Rider 11 and the Commission's Order on Remand in Consolidated Dockets 91-0080, *et al.*, Respondent is entitled to recover carrying charges on its unrecovered balance of incremental costs of environmental activities.

285 The amount of \$60,162.22 was calculated and recorded pursuant to Rider 11.

286 Q. In the Initiating Order for this proceeding, the Commission ordered the  
287 Company to include as part of its filing cumulative totals of recoveries by customer  
288 class. Has the Company provided this data?

289 A. Yes. North Shore Exhibit 4 presents by customer class the cumulative total  
290 of recoveries through rates of \$8,204,909.51 as detailed in Line 7, Column D, Page  
291 6 of Exhibit 1.

292 Q. In the Initiating Order for this proceeding the Commission ordered the  
293 Company to provide notice of its filing in the manner that notice be made for a  
294 general rate increase prescribed under Part 255 of the Illinois Administrative Code.  
295 Will the Company comply with those filing requirements?

296 A. Yes.

297 Q. Does this conclude your direct testimony?

298 A. Yes, it does.

299 J:\MSWord\Walsh\Ill.C.C\Utilities\NSG\00-0443 NSG Rider 11 f. 99\00-0443 SJM REvised Dir. Test. -- NSG.doc


STATE OF ILLINOIS   )  
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COUNTY OF COOK    )

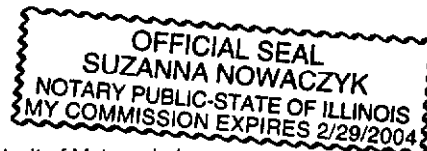
AFFIDAVIT OF STEVEN J. MATUSZAK

Steven J. Matuszak, being first duly sworn according to law, on oath deposes and says that he is the witness whose testimony appears on the preceding pages entitled "REVISED DIRECT TESTIMONY OF STEVEN J. MATUSZAK," and who sponsored the attached exhibits labeled North Shore Exhibit 1 and North Shore Exhibit 4 in Docket No. 00-0443, and that, if asked the questions which appear in the text of said testimony, affiant would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as his sworn testimony in these proceedings.

By:   
STEVEN J. MATUSZAK

SUBSCRIBED and SWORN TO before me this 12<sup>th</sup> day of June 2001.

By:   
Notary Public



**III. C.C. Docket 00-0443  
North Shore Exhibit 1**

**Rider 11 Report for Fiscal 1999  
With Certification of Arthur Andersen**

North Shore Gas Company

Report To Illinois Commerce Commission

With Respect To Operation Of Rider 11, Adjustment

For Incremental Costs Of Environmental Activities

Quarter Ended September 30, 1999

And Fiscal Year 1999

**North Shore Gas Company**  
**Operation Of Rider 11, Adjustment For**  
**Incremental Costs Of Environmental Activities**  
**Quarter Ended September 30, 1999 And Fiscal Year 1999**

This report addresses the operation of the Company's Rider 11, Adjustment For Incremental Costs Of Environmental Activities, during the quarter ended September 30, 1999, and during fiscal year 1999.

Section D of the Company's Rider 11, Adjustment for Incremental Costs of Environmental Activities, requires that the Company file quarterly reports with the Commission. Rider 11 further requires that each such report contain: a statement of activity in the Deferred Account for the quarter and for the fiscal year through the quarter; a statement of activity in the Settlement Fund for the quarter and for the fiscal year through the quarter; a statement of adjustments that were terminated during the quarter; a summary of the incremental costs incurred during the quarter and for the fiscal year through the quarter; and a description of the environmental activities in which the Company was involved during the quarter. Cumulative incremental costs and recoveries through September 30, 1999 are also included in these reports.

**Statement Of Activity In The Deferred Account**

Under its Rider 11, the Company recorded the amount of \$312,915.71 in the Deferred Account during the quarter ended September 30, 1999, the fourth quarter of fiscal year 1999. This amount represents the net incremental costs that were incurred in connection with the environmental activities that were conducted by the Company during the quarter ended September 30, 1999. This amount is offset by a credit of \$151,121.25, representing 50% of net incremental costs for the quarter, excluding carrying costs, which were recovered through the Settlement Fund.

During the quarter ended September 30, 1999, the Company recognized \$84,978.45 in revenues arising from the application of the adjustments determined under Rider 11.

Page 5 of this report presents the "Statement Of Activity In Account 182.3, Other Regulatory Assets, quarter ended September 30, 1999, Fiscal Year 1999 And Cumulative Through September 30, 1999".

**Statement of Activity in Settlement Fund**

On February 26, 1999, the Commission approved the changes in Rider 11, including the establishment of the Settlement Fund, by Special Permission No. R-18957. In December 1998, the Company received monies as a result of an insurance settlement. All transactions were recorded after income taxes. The net balance of \$3,887,187.24 is shown for the quarter ended September 30, 1999, which include a deduction of \$91,175.99, 50% of the quarter's net incremental costs less income tax benefits, and the addition of Interest (after tax) of \$50,153.19.



**North Shore Gas Company**  
**Operation Of Rider 11, Adjustment For**  
**Incremental Costs Of Environmental Activities**  
**Quarter Ended September 30, 1999 And Fiscal Year 1999**

Page 6 of this report presents the "Statement of Activity in the Settlement Fund, quarter ended September 30, 1999, Fiscal Year 1999 And Cumulative Through September 30, 1999".

**Summary Of Incremental Costs**

The Company experienced a total of \$312,915.71 in incremental costs relative to the environmental activities that were conducted during the quarter ended September 30, 1999. Of this amount, \$223,187.78 is attributable to the environmental activities conducted relative to the former Waukegan Coke Plant (which was comprised of incremental costs for environmental activities of \$238,367.61 offset by receipt of \$15,179.83 from potentially responsible parties (PRPs)), \$6,329.98 is attributable to the South Plant, \$3,140.51 is attributable to the Company's Community Relations Program, \$64,194.22 is attributable to Insurance Related Costs, \$5,390.00 was incurred for General and Unallocated Costs, and \$10,673.22 is attributable to Carrying Charges. A credit of \$151,121.25 representing recovery from the Settlement Fund of 50% of net incremental costs, excluding carrying charges, is also shown on this summary.

Page 7 of this report presents the "Summary Of Incremental Costs, Quarter Ended September 30, 1999, Fiscal Year 1999 And Cumulative Through September 30, 1999".

**Description Of Environmental Activities**

**Waukegan Coke Plant:**

During the fourth quarter of fiscal 1999, the Company received a total of \$15,179.83 in payments from a PRP, and incurred \$238,367.61 in incremental costs associated with the environmental activities that were conducted relative to the former Waukegan Coke Plant. These costs were incurred as a result of the activities that were conducted by the Company's environmental engineering consultants and the Company's environmental counsel in conjunction with project reporting and preparation of the United States Environmental Protection Agency Record of Decision.

**South Plant:**

During the fourth quarter of fiscal 1999, the Company incurred \$6,329.98 in incremental costs associated with the environmental activities that were conducted relative to the South Plant. These costs were incurred for project management services in association with the Illinois Environmental Protection Agency site remediation program.

**North Shore Gas Company**  
**Operation Of Rider 11, Adjustment For**  
**Incremental Costs Of Environmental Activities**  
**Quarter Ended September 30, 1999 And Fiscal Year 1999**

**Community Relations Program:**

During the fourth quarter of fiscal 1999, the Company incurred \$3,140.51 in incremental costs associated with the environmental activities that were conducted relative to its Community Relations Program. These costs were incurred as a result of the services provided by the Company's Community Relations consultant relative to the Company's environmental activities in the Waukegan area.

**Insurance Related Costs and Recoveries:**

During the fourth quarter of fiscal 1999, the Company incurred \$64,194.22 in insurance related incremental costs. These incremental costs were incurred as the result of the litigation of a lawsuit by the Company seeking indemnification from the Company's current and previous insurance carriers for the past and future costs of the environmental activities conducted by the Company. The costs incurred during the fourth quarter are primarily attributable to the activities of the Company's insurance counsel and its contractors, document preparation resulting in scanning and coding documents, preparing litigation, copies, ledgers, telephone conferences, filings, drafting agreements, database input and legal research. Costs were also incurred for environmental risk services.

**General and Unallocated Costs:**

During the fourth quarter of fiscal 1999, the Company incurred \$5,390.00 in general and unallocated costs. The cost incurred during the fourth quarter was for work performed by the Company's independent auditor.

**Carrying Charges:**

During the fourth quarter of fiscal 1999, the Company incurred \$10,673.22 in carrying charges. This amount represents the cost of carrying amounts in the deferred account before recovery through the settlement fund and application of adjustments determined under Rider 11.

**Cost Recoveries from Settlement Fund:**

During the fourth quarter of fiscal 1999, a credit of \$151,121.25 was recorded for costs recovered through the Settlement Fund. The amount represents 50% of the net incremental costs, excluding carrying charges, incurred by the Company for the quarter ended September 30, 1999.

**Adjustments**

In accordance with the terms of Rider 11, page 8 of this report identifies two adjustments which were terminated during the quarter ended September 30, 1999.

North Shore Gas Company

INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
STATEMENT OF ACTIVITY IN ACCOUNT 182.3, OTHER REGULATORY ASSETS  
QUARTER ENDED SEPTEMBER 30, 1999, FISCAL YEAR 1999 AND  
CUMULATIVE THROUGH SEPTEMBER 30, 1999

Line No.	Description (A)	Quarter Ended 09-30-99 (B)	Fiscal Year 1999 (C)	Cumulative Through 09-30-99 (D)
1	Balance at Beginning of Period	\$ 483,755.28	\$ 1,184,381.75	\$ 0.00
2	Plus Costs Incurred:			
3	Quarter (Page 7, Line 11, Col. C)	312,915.71	--	--
4	Fiscal Year (Page 7, Line 11, Col. D)	--	671,363.88	--
5	Cumulative (Page 7, Line 11, Col. E)	--	--	9,037,589.34
6	Sub-total	796,670.99	1,855,745.63	9,037,589.34
7	Less Costs Recovered Through Rates	84,978.45	1,023,065.80	8,204,909.51
8	Less Recovery Through Settlement Fund:			
9	Quarter (Page 7, Line 13, Col. C)	151,121.25	--	--
10	Fiscal Year (Page 7, Line 13, Col. D)	--	272,108.54	--
11	Cumulative (Page 7, Line 13, Col. E)	--	--	272,108.54
12	Balance at End of Period	\$ <u>560,571.29</u>	\$ <u>560,571.29</u>	\$ <u>560,571.29</u>

North Shore Gas Company

STATEMENT OF ACTIVITY IN THE SETTLEMENT FUND  
QUARTER ENDED SEPTEMBER 30, 1999, FISCAL YEAR 1999  
AND CUMULATIVE THROUGH SEPTEMBER 30, 1999

Line No.		Quarter Ended 09-30-99	Fiscal Year 1999	Cumulative Through 09-30-99
1	Balance at Beginning of Period	\$ 3,928,210.04	\$ 0.00	\$ 0.00
2	Add: Settlements with insurance carriers			
3	or other entities (after-tax)	--	3,892,838.17	3,892,838.17
4	Deduct: 50% of net incremental costs,			
5	less income tax benefit (See note)	91,175.99	164,171.26	164,171.26
6	Add: Interest (after-tax)	50,153.19	158,520.33	158,520.33
7	Balance at end of period	3,887,187.24	3,887,187.24	3,887,187.24
Note:	Incremental costs	\$ 317,422.32	\$ 752,994.20	\$ 752,994.20
	Less: Incremental costs recovered in the period			
	from insurance carriers or other entities	15,179.83	208,777.17	208,777.17
	Net incremental costs	\$ 302,242.49	\$ 544,217.03	\$ 544,217.03
	50% of net incremental costs for the period	\$ 151,121.25	\$ 272,108.54	\$ 272,108.54
	Less: Income tax benefit calculated at an			
	effective State and Federal Rate of 39.667%	59,945.26	107,937.28	107,937.28
	Total	\$ 91,175.99	\$ 164,171.26	\$ 164,171.26

North Shore Gas Company

**INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES**  
**SUMMARY OF INCREMENTAL COSTS (1)**  
**QUARTER ENDED SEPTEMBER 30, 1999, FISCAL YEAR 1999 AND**  
**CUMULATIVE THROUGH SEPTEMBER 30, 1999**

Line No.	Site or Other Category of Costs (A)	Recorded in Function Number (B)	Quarter Ended 09-30-99 (C)	Fiscal Year 1999 (D)	Cumulative Through 09-30-99 (E)
1	Deerfield Station	7766.01	\$ 0.00	\$ 0.00	\$ 410.00
2	North Plant	7766.02	0.00	0.00	49,274.16
3	Waukegan Coke Plant	7766.03	223,187.78	462,416.82	5,387,314.75
4	South Plant	7766.04	6,329.98	8,222.75	49,924.52
5	Spring Street	7766.05	0.00	0.00	29,382.00
6	Waukegan Tar Pit	7766.06	0.00	0.00	1,745,092.98
7	Community Relations Program	7766.70	3,140.51	12,652.90	95,246.29
8	Insurance-Related Costs and Recoveries	7766.80	64,194.22	117,101.08	1,158,740.59
9	General and Unallocated Costs	7766.90	5,390.00	10,808.11	100,141.59
10	Carrying Charges	7762	<u>10,673.22</u>	<u>60,162.22</u>	<u>422,062.46</u>
11	Total		\$ 312,915.71	\$ 671,363.88	\$ 9,037,589.34
12	Less: Recovery from				
13	Settlement Fund (Page 6, Note)	7766.95	<u>151,121.25</u>	<u>272,108.54</u>	<u>272,108.54</u>
14	Net Total after Settlement				
15	Fund recovery		\$ <u>161,794.46</u>	\$ <u>399,255.34</u>	\$ <u>8,765,480.80</u>

(1) Recorded in Account 182.3, Other Regulatory Assets.

North Shore Gas Company

INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
ADJUSTMENTS UNDER RIDER 11 TERMINATED  
DURING QUARTER ENDED SEPTEMBER 30, 1999

<u>Adjustments</u> <u>Effective</u> <u>Beginning:</u>		<u>Amount Reflected</u> <u>in Determination</u> <u>of Adjustment</u>		<u>Amount</u> <u>Recovered</u> <u>Through Rates</u>		<u>Difference (1)</u>
(A)		(B)		(C)		(D)
August 1, 1998	\$	109,149.61	\$	95,815.27	\$	13,334.34
September 1, 1998		-95,654.85		-95,859.41		204.56

(1) Maintained in deferred account for inclusion in subsequent determination of an adjustment.

STATE OF ILLINOIS )

COUNTY OF COOK )

SS

KATHERINE A. DONOFRIO, being second duly sworn, deposes and says that she is Vice President of North Shore Company; that she has read the foregoing Report to the Illinois Commerce Commission with respect to Operation of Rider 11, Adjustment for Incremental Costs of Environmental Activities, for the Quarter ended September 30, 1999 and knows the contents thereof; and that the facts therein stated are true to the best of her knowledge, information and belief.

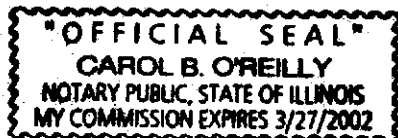
Katherine A. Donofrio  
Katherine A. Donofrio

SUBSCRIBED and SWORN TO before me this 17th day of  
November, 1999.

Carol B. O'Reilly  
Notary Public

My Commission Expires:

March 27, 2002



ARTHUR ANDERSEN LLP

**NORTH SHORE GAS COMPANY**

**REPORT TO ILLINOIS COMMERCE COMMISSION  
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
STATEMENT OF ACTIVITY IN THE DEFERRED ACCOUNT  
FOR THE FISCAL YEAR 1999**



# ARTHUR ANDERSEN LLP

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To North Shore Gas Company:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of North Shore Gas Company (the "company") for the year ended September 30, 1999, and have issued our report thereon dated October 29, 1999. We have also audited the accompanying Report to Illinois Commerce Commission Incremental Costs of Environmental Activities Statement of Activity in the Deferred Account (the "Report") for the Fiscal Year 1999 of the company. The Report is the responsibility of the company's management. Our responsibility is to express an opinion on the Report based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Report presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Report was prepared for the purpose of complying with the company's Rider 11, Section D, as filed with the Illinois Commerce Commission.

In our opinion, the Report referred to above presents fairly, in all material respects, the information set forth therein, of the company for the year ended September 30, 1999, in accordance with the company's Rider 11, Section D, as filed with the Illinois Commerce Commission.

This report is intended solely for the information and use of the company and the Illinois Commerce Commission and should not be used for any other purpose.

  
ARTHUR ANDERSEN LLP

Chicago, Illinois,  
November 10, 1999

North Shore Gas Company

REPORT TO ILLINOIS COMMERCE COMMISSION  
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
STATEMENT OF ACTIVITY IN ACCOUNT 182.3, OTHER REGULATORY ASSETS  
FISCAL YEAR 1999

Line No.	Description [A]	Fiscal Year 1999 [B]
1	Balance at Beginning of Period	\$1,184,381.75
2	Plus Costs Incurred:	
3	Fiscal Year (Page 3, Line 11, Col. C)	<u>671,363.88</u>
4	Sub-total	1,855,745.63
5	Less Costs Recovered Through Rates	1,023,065.80
6	Less Recovery Through Settlement Fund Fiscal Year (Page 3, Line 13, Col. C)	<u>272,108.54</u>
7	Balance at the End of Period	<u>\$ 560,571.29</u>

The Peoples Gas Light and Coke Company

REPORT TO ILLINOIS COMMERCE COMMISSION  
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
STATEMENT OF ACTIVITY IN SETTLEMENT FUND  
FISCAL YEAR 1999

<u>Line</u> <u>No.</u>		<u>Fiscal</u> <u>Year</u> <u>1999</u>
1	Balance at Beginning Period	\$0.00
2	Add: Settlements with insurance carriers	
3	or other entities (after tax)	7,268,766.83
4	Deduct: 50% of net incremental costs,	
5	less income tax benefit (See Note)	341,429.81
6	Add: Interest (after tax):	272,044.88
7	Balance at End of Period	<u>\$7,199,381.90</u>
Note: Incremental costs		\$ 1,131,817.72
Less: Incremental costs recovered from		
insurance carriers or other entities		0.00
Net incremental costs		<u>\$ 1,131,817.72</u>
50% of net incremental costs		\$ 565,908.87
Less: Income tax benefit calculated at an effective		
State and Federal Rate of 39.667%		224,479.06
Total		<u>\$ 341,429.81</u>

North Shore Gas Company

REPORT TO ILLINOIS COMMERCE COMMISSION  
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
SUMMARY OF COSTS INCURRED (1)  
FISCAL YEAR 1999

<u>Line No.</u>	<u>Site or Other Category of Costs</u> <u>[A]</u>	<u>Recorded in Function Number</u> <u>[B]</u>	<u>Fiscal Year 1999</u> <u>[C]</u>
1	Deerfield Station	7766.01	\$0.00
2	North Plant	7766.02	0.00
3	Waukegan Coke Plant	7766.03	462,416.82
4	South Plant	7766.04	8,222.75
5	Spring Street	7766.05	0.00
6	Waukegan Tar Pit	7766.06	0.00
7	Community Relations Program	7766.70	12,652.90
8	Insurance-Related Costs and Recoveries	7766.80	117,101.08
9	General and Unallocated Costs	7766.90	10,808.11
10	Carrying Charges	7762	<u>60,162.22</u>
11	Total		\$671,363.88
12	Less: Recovery from		
13	Settlement Fund (Page 2, Note)	7766.95	<u>272,108.54</u>
14	Net Total after Settlement		
15	Fund recovery		<u><u>\$399,255.34</u></u>

(1) Recorded in Account 182.3, Other Regulatory Assets

North Shore Gas Company

REPORT TO ILLINOIS COMMERCE COMMISSION  
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES  
ADJUSTMENTS UNDER RIDER 11 TERMINATED  
FISCAL YEAR 1999

<u>Adjustments</u> <u>Effective</u> <u>Beginning:</u>	<u>Amount Reflected</u> <u>in Determination</u> <u>of Adjustment</u>	<u>Amount</u> <u>Recovered</u> <u>Through Rates</u>	<u>Difference (1)</u>
<u>[A]</u>	<u>[B]</u>	<u>[C]</u>	<u>[D]</u>
October 1, 1997	\$39,377.26	\$31,960.77	\$7,416.49
November 1, 1997	58,575.12	32,394.26	26,180.86
December 1, 1997	565,248.09	449,593.63	115,654.46
February 1, 1998	(78,372.17)	(68,435.00)	(9,937.17)
April 1, 1998	103,362.56	100,196.39	3,166.17
May 1, 1998	260,344.95	228,979.51	31,365.44
June 1, 1998	143,448.04	129,333.37	14,114.67
August 1, 1998	109,149.61	95,815.27	13,334.34
September 1, 1998	(95,654.85)	(95,859.41)	204.56

NOTE: (1) Maintained in deferred account for inclusion in subsequent determination of an adjustment.

North Shore Gas Company  
Cumulative Rider 11 Recoveries by Customer Class

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Total</u>
1992*	*	*	*	\$ 956,618.10
1993	\$ 1,282,820.57	\$ 520,192.97	\$ 364,106.51	2,167,120.05
1994	299,109.89	126,095.69	95,615.96	520,821.54
1995	123,542.80	52,345.34	44,950.94	220,839.08
1996	958,269.31	331,261.11	300,527.92	1,590,058.34
1997	743,062.64	226,488.21	188,312.77	1,157,863.62
1998	313,348.16	143,357.79	111,817.03	568,522.98
1999	<u>622,909.61</u>	<u>265,879.75</u>	<u>134,276.44</u>	<u>1,023,065.80</u>
Total	<u>\$ 4,343,062.98</u>	<u>\$ 1,665,620.86</u>	<u>\$ 1,239,607.57</u>	<u>\$ 8,204,909.51</u>

\* Customer Class data for Fiscal 1992 Rider 11 recoveries is not available.